AR47

REALTY CAPITAL CORP LIMITED

NINETEEN SEVENTY SIX ANNUAL REPORT

Realty Capital Corp. Limited is a financial services holding company conducting its activities in the Trust and Savings, and Land Development areas. Federal Trust Company, with 14 savings, real estate and mortgage branch offices, is the company's largest subsidiary.

ANNUAL MEETING

The Annual Meeting of Shareholders of Realty Capital Corp. Limited will be held on Thursday, May 26, 1977, at 4:00 p.m. in the Sutton Place Hotel, Salon A, Toronto.

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EIGHT YEAR SUMMARY

(in thousands of dollars except per share figures)

Realty Capital (Consolidated)

	1976	1975	1974	1973	1972	1971	1970	1969
Gross income	$ 14,384	$ 11,807	$ 9,533	$ 6,111	$ 4,801	$ 3,530	$ 1,208	$ 545
Interest expense	10,548	8,463	6,514	3,549	2,451	1,859	585	159
	3,836	3,344	3,019	2,562	2,350	1,671	623	386
Operating expenses	3,484	3,073	2,370	1,864	1,246	1,000	450	171
Net income before taxes	352	271	649	698	1,104	671	173	215
Income taxes	3	73	273	307	507	313	92	109
Net income after taxes	349	198	376	391	597	358	81	106
Extraordinary item	177	739	—	—	45	—	—	—
Adustments*	—	—	—	—	—	—	—	10
Net income	$ 526	$ 937	$ 376	$ 391	$ 642	$ 358	$ 81	$ 116
Return on average shareholders' equity	10.8%	20.8%	9.6%	10.8%	23.2%	18.4%	4.5%	9.1%
Shareholder items (per Class A share)								
Net income before extraordinary item	$ 0.47	$ 0.27	$ 0.51	$ 0.55	$ 0.94	$ 0.74	$ 0.20	$ 0.28
Net income	0.71	1.27	0.51	0.55	1.02	0.74	0.20	0.28
Dividends	0.20	0.20	0.30	0.30	0.20	0.20	0.20	0.15
Equity**	6.89	6.38	5.31	5.10	4.88	4.31	3.77	3.80
Market price								
High	3.40	3.80	4.75	7⅜	7.50	3.85	2.85	5⅛
Low	2.45	2.00	2.45	3.85	3.50	2.20	1.70	2.75
December 31	2.75	2.40	2.65	4.00	6⅛	3.40	2.10	2.75
Price/earnings multiple***	5.9	8.9	5.2	7.3	6.5	4.6	10.5	9.8
Other data**								
Total assets	$149,785	$125,740	$ 99,780	$ 77,519	$ 53,356	$ 44,389	$ 15,559	$ 6,739
Estates, trusts and agencies under administration	$ 36,946	$ 24,846	$ 15,400	$ 6,193	—	—	—	—
Number of shares outstanding:								
Class A	562,514	562,514	562,514	561,455	533,946	306,375	306,375	306,375
Common	174,400	174,400	174,400	174,400	174,400	174,400	174,400	174,400
Number of Class A shareholders	761	816	838	818	764	385		

**Adjusted for Company's share in earnings of former County Savings and Loan Corporation.*

***At December 31.*

****Based on net income before extraordinary item and market price at December 31.*

Federal Trust*

Balance Sheet:	1976	1975	1974	1973	1972	1971	1970	1969
Total assets	$149,497	$118,077	$ 90,270	$ 70,693	$ 46,524	$ 37,734	$ 32,995	$ 26,099
Deposits	137,874	110,122	86,064	63,817	42,677	34,413	29,764	23,669
Shareholders' equity	9,154	6,304	5,016	4,685	2,865	2,521	2,195	1,945
Estates, trusts and agencies under administration	36,946	24,846	15,400	6,193	—	—	—	—
Earnings:								
Gross income	13,693	11,088	8,337	5,448	3,896	3,533	2,881	1,801
Net operating income	324	300	155	293	266	152	38	38
Net income	473	1,288	156	320	345	338	52	75

**Federal Trust Company was formed as a result of amalgamations in 1972 and 1974, between County Savings and Loan Corporation, Federal Savings and Loan Corporation and Federal Trust & Savings Company. The above table reflects the position as it would have been if the corporation had been amalgamated for the full eight year period.*

PRESIDENT'S REPORT

On behalf of the Board of Directors, I am pleased to report to you the consolidated results of the Company for the year ended December 31, 1976.

The results were gratifying. Total consolidated assets increased by 19% from $125,740,000 to $149,785,000. Gross income was $14,384,000, up 22% from $11,807,000 and net income before extraordinary gain increased to $349,000 (47 cents per share) as compared to $198,000 (27 cents per share) for the previous year. An after tax gain of $177,000 (24 cents per share) on the sale of premises increased profit for the latest year. A similar gain of $739,000 ($1.00 per share) was reported for the previous year. Shareholders' equity per share increased to $6.89 as at December 31, 1976.

During the year much effort was devoted to changing the direction of the Company away from lines of activity not directly related to the trust company business and this emphasis will continue in 1977.

An in-house computer has recently been purchased and our systems are now being converted to this computer. I believe this to be an important step forward in strengthening the Company's administration and enabling it to cope with planned future growth.

Also during 1976, Federal Trust Company opened two new real estate sales offices and acquired a third, bringing the complement of offices to five.

In March 1976, the restructuring of the Realty Capital group of companies was completed. This increased the capital base of Federal Trust Company by $3.6 million, eliminated two subsidiaries by amalgamation and simplified the overall structure of the group.

The following table shows the present structure:

REALTY CAPITAL CORP. LIMITED
("Realty Capital")
99%
FEDERAL TRUST COMPANY
("Federal Trust")
100%
WARCHESTER INVESTMENTS LIMITED
("Warchester")

FEDERAL TRUST COMPANY

(Trust Division)

As a result of the corporate reorganization mentioned previously, Federal Trust is able to continue its policy of aggressively increasing its deposits without having to raise any external capital at this time. The trust company presently has eleven financial service branches, of which five have been opened in the past three years. Most of these newer branches are now operating on a profitable basis. No new financial service branches were opened in 1976.

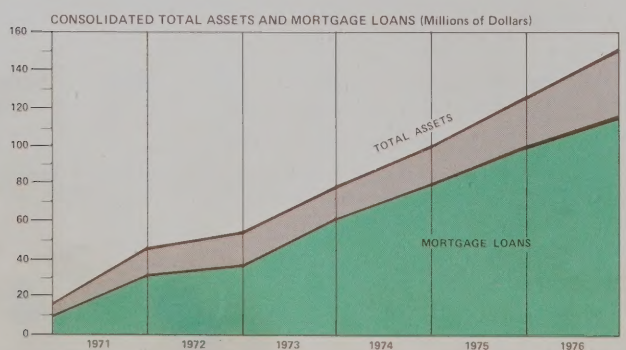
Total assets of Federal Trust, excluding assets under administration, increased by 27% in 1976 to $149,497,000 and assets under administration increased from $24,846,000 to $36,946,000. Net income is summarized as follows:

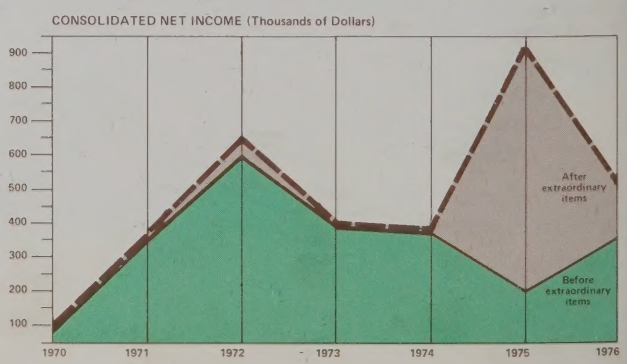
	Year ended December 31	
	1976	1975
	(In thousands of dollars)	
Operating income before taxes	**$143**	$ 454
Income taxes	**(108)**	156
Net income of trust division	**251**	298
Share of undistributed earnings of Warchester	**45**	—
Net income before extraordinary gain	**$296**	$ 298

Effective January 1, 1976 the Land Development Division became a wholly-owned subsidiary of Federal Trust. The investment in shares of Warchester, totalling $6,150,000, only provided an after tax return to Federal Trust of $45,000 which is the primary reason the 1976 net income before extraordinary gain showed no increase over the 1975 results. The reasons for this low return on investment are explained later in my report.

FINANCIAL SERVICE BRANCHES

No new financial service branches were opened during 1976. Instead, the emphasis was directed towards in-





creasing total deposits per branch. At the end of the year, our 605 Danforth branch was relocated to larger and more attractive premises at the corner of Danforth Avenue and Pape. Increased activity has already been evident at this branch. At the same time the former branch premises was sold at an advantageous price.

Total guaranteed trust deposits increased during the year by 25% to $137,874,000 with increases in guaranteed investment certificates to $91,858,000 from $71,459,000, and short-term and demand deposits from $34,715,000 to $40,779,000.

Although some of the branches are already fully on line through use of outside computer facilities, the acquisition of our new in-house computer will enable more of our branches to go on line during 1977. This should reduce the future overall cost of operation and improve service to our customers. In addition this system will provide the company with more complete information as to the services used by each of its customers.

MORTGAGE LENDING

The Mortgage Department had an extremely active year. During 1976 we were successful in strengthening personnel in both the production and administrative areas. On the production side, emphasis was directed towards increasing the size of our residential mortgage portfolio.

Of interest is our growth in the Mortgage Banking area, where the portfolio of mortgages managed for Investor Clients grew from $21,706,000 to $30,751,000, with a continuation of this trend anticipated through 1977. The advent of our on-line mortgage system will greatly enhance our capabilities in this area, enabling us to continue giving our Investor Clients quality service, notwithstanding the rapid growth of managed assets.

CREDIT LENDING

Loans other than mortgages showed continued excellent growth during 1976. Consumer loans increased from $1,742,000 to $2,325,000 and demand loans almost doubled from $1,916,000 to $3,747,000. Continued growth is expected through 1977. In anticipation the Company has, since the year-end, acquired the services of an Advisor and a new Manager of the Credit Department. Both persons have had many years of experience in the credit area. The growth of this department will make a significant contribution to the future profitability of the Company and is a means of utilizing demand and shorter term deposits.

REAL ESTATE SALES

As mentioned previously, two new branches were opened in 1976 and another acquired, increasing the total number of real estate sales branches to five. Due to the sluggish real estate market the results of this department during the year were disappointing, even though gross sales commissions increased from $260,000 in 1975 to $328,000. Of the three new real estate sales branches, two were opened later in the year and had not built up an appropriate staff of sales-persons, and the third, although fully staffed, was acquired close to the end of the year. Since the year-end, the number of staff has grown in the two new offices and all indications are to much improved results in the present year, especially with an anticipated pick-up in the market generally, as a result of lower mortgage rates.

DATA PROCESSING

As mentioned elsewhere in this report, at the end of 1976 the Company acquired a medium-sized Burroughs computer. This acquisition was made after much research and consideration. In addition to servicing our financial service branches, it is planned to systematically convert other departments to this system during 1977. Realizing the importance of a successful conversion, the Company has acquired personnel with experience in both this Burroughs equipment and banking systems.

I am confident this acquisition will help the Company improve its present accounting and reporting systems, increase its ability to service the various departments and its ever growing number of customers and Investor Clients. In addition the system is capable of being expanded to handle the future anticipated growth of the Company.

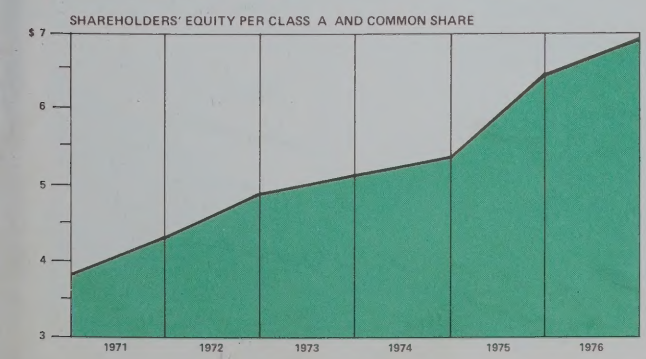
PERSONAL TRUST SERVICES

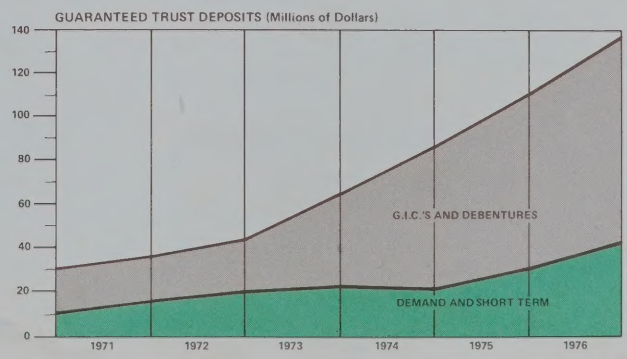
The results of our 1976/1977 Retirement Savings Plan campaign were gratifying in that total assets under administration almost doubled. The preference of most customers was to invest funds in our G.I.C. plan although there was a marked increase in the number of customers who directed funds to the Mortgage and Bond Fund, which provides both a high yield and liquidity.

In addition good growth was also achieved in the Company's Registered Home Ownership Savings Plan with total deposits under administration having doubled during the year. These deposits are held in a Special Savings Account paying a high rate of interest. Continued growth is anticipated for these plans as our customers become more acquainted with their benefits.

FINANCE

The Company continued its policy of matching the maturities of its investments to its deposits and wherever possible locking in the interest spreads during the term. The Company also continued to purchase preferred shares of high quality companies with substantial asset and dividend coverage along with adequate purchase funds, sinking funds or other features ensuring a return of capital within a reasonable time. These shares offer the Company attractive after tax yields and good liquidity. This policy will be continued in 1977 which should add to the overall profitability of the Company.





The Mortgage and Bond Fund increased substantially during the recent R.R.S.P. campaign and now has a mortgage portfolio in excess of $1.5 million. The high yield and liquidity of this fund should ensure its continued excellent growth. The Deferred Profit Sharing Plan offered by the Company to provide a tax-sheltered retirement savings for employees of primarily smaller corporations has also been well received and should result in good growth in the months ahead.

WARCHESTER INVESTMENTS LIMITED

(Land Development Division)

The activities of this wholly-owned subsidiary of Federal Trust are gradually being wound down. At the end of the year some of its mortgages were sold to Federal Trust. The assets of the Company are now composed of land holdings, real estate under construction, and mortgages taken back on previous land sales. It is management's intention to continue the winding down process as quickly as possible.

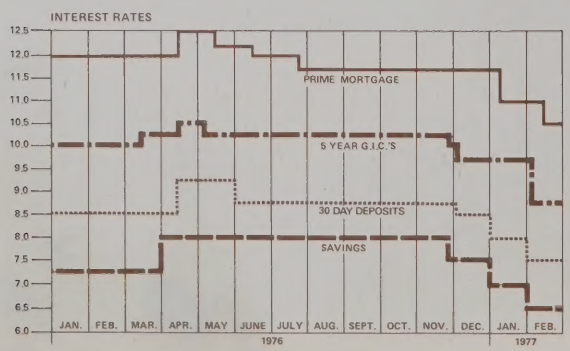
Net income of this division increased to $45,000 in 1976, as compared to a net loss of $98,000 in the previous year. This improvement in earnings was primarily as a result of the refinancing of its debt with an issue of preferred shares to its parent company, Federal Trust, and a lowering of the administration charge from Realty Capital due to the reduced operations of this division.

Although earnings of the division increased, net income in relation to shareholders' equity was low. This is primarily due to the fact that a good proportion of total assets are invested in non-income producing real estate which only provide revenues when sold. The timing of these sales cannot be planned and tend to be very irregular. The sale of real estate has been virtually non-existent in the last two years. However, it is anticipated that the land holdings and real estate under construction will be sold at a good profit to the Company. The funds resulting from these sales will be directed to the trust company operation where they will produce income of a more consistent nature.

ECONOMIC OUTLOOK

Interest rates have, during the last few months, decreased appreciably. However, with the present economic uncertainties which prevail, I do not anticipate any further drop in rates and in fact believe there may be some firming of rates in the coming months. The rate reductions will have a beneficial affect on 1977 earnings.

The most ominous cloud on our economic horizon is, in my estimation, the possible break-up of our country. Although the Company has very little investment exposure in the Quebec market and therefore will not be affected directly by any separation, I believe our nation would suffer greatly with obvious detrimental effects on the economy of all provinces. Every possible avenue should be taken to avert such a happening and it is incumbent upon every one of us to work to preserve this country of ours.



COMPANY OUTLOOK

The year 1977 will be another year of consolidation for the Company, with the only branch opening planned, being a small office in the Province of Alberta concentrating on originating mortgages and the selling of guaranteed investment certificates. The cost of opening five financial service branches in the past three years should start to produce dividends in 1977, with a good increase in net interest income. The twelve branches should be adequate to produce the planned deposit increases for the next two years. Fee income should also increase appreciably in 1977 from increased activity in mortgage banking and real estate sales. Continued emphasis will be placed on the control of operating expenses, which combined should result in an overall good increase in consolidated net income for the Company.

BOARD OF DIRECTORS

It is with regret I have to report the resignation of Mr. W. G. Durst and Mr. G. Rose from our Board of Directors. Both were original Directors and always took an active interest in the affairs of the Company.

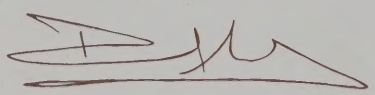
ORGANIZATION

I am pleased to welcome M. Rowe Dinney, as Special Advisor to the President. Mr. Dinney has had extensive banking experience, specializing in the credit area. This experience will be of great value to the Company. In addition I am pleased to announce the promotion of Peter Nygard to the position of Vice-President, Mortgages. Mr. Nygard has held various positions with the Company in the mortgage lending area over the past eight years.

IN APPRECIATION

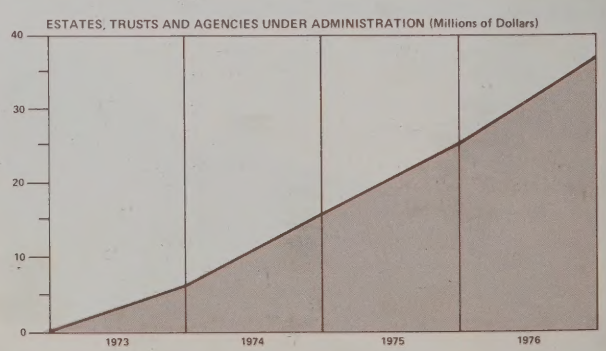
The Company's achievements in 1976 were made possible through the conscientious efforts of all it's employees. On behalf of the Board of Directors, I express our sincere appreciation.

My thanks are also extended to all shareholders for their support, and I hope they will continue to make use of our broad range of financial services.



David S. Ades
President and Chief Executive Officer

March 30, 1977



CORPORATE DIRECTORY

REALTY CAPITAL CORP. LIMITED

Directors

*David S. Ades, *B.Sc., A.M.C.T.*
President
Realty Capital Corp. Limited
Federal Trust Company

Jeanne Ades

*Leonard E. Barlow,
Senior Vice-President
McLeod, Young, Weir & Company Limited, Toronto

Roger I. Coe, *C.A.*
Vice-President and Treasurer
Realty Capital Corp. Limited
Federal Trust Company

Pierre Genest, *Q.C.*
Partner
Cassels, Brock, Toronto

*Peter Mackenzie,
Director
Cadillac Explorations Limited, Calgary

*Wilfred J. Wilson,
Senior Vice-President
Teachers' Insurance and Annuity Association of America and College Retirement Equities Fund, New York

**Audit Committee*

Officers

(Realty Capital and Federal Trust)

*David S. Ades, *B.Sc., A.M.C.T.*
President

*Roger I. Coe, *C.A.*
Vice-President, Finance, Treasurer and Assistant Secretary

*Consiglio Di Nino,
Vice-President, Operations

*Robert B. Halvorsen, *C.A.*
Vice-President, Administration

*Peter Nygard,
Vice-President, Mortgages

*M. Rowe Dinney,
Special Advisor to the President

Donald J. Cotie,
Comptroller

**Executive Committee*

Advisory Boards

Brampton

J. Robert Kelly, *Chairman*
Barrister and Solicitor

William Raine
Retired Peel County Sheriff

Doug Dunton
Retired Holstein Breeder

Ottawa

John R. Ferguson, *Chairman*
Financial Consultant

Philip D. Smith
Management Consultant

Department Managers

Brian L. Birket,
Computer Systems

Clare O. Bull,
Personnel

Frances L. Conant,
Real Estate Sales

Donald J. Cotie,
Comptroller

Sheila Dee,
Retirement Savings Plans

Paul R. Graham,
Deferred Profit Sharing Plans

James P. Howell,
Credit

Donald B. Irvine,
Branch Operations and Services

Robert E. Janzen,
Mortgage Administration

Laurence A. Mills,
Securities

Gordon M. Parr,
Internal Audit

Tammy Smith,
Marketing

Auditors

Price Waterhouse & Co.,
Chartered Accountants, Toronto

Trustees and Transfer Agents

Federal Trust Company
Common Shares

Guaranty Trust Company of Canada
Series A Debentures

Montreal Trust Company
Class A Shares, Series C and F Warrants

Bankers

Royal Bank of Canada
Canadian Imperial Bank of Commerce

Legal Counsel

Cassels, Brock
Barristers and Solicitors,
Toronto

Pouliot, Mercure, Le Bel, Prud'Homme, Verdy & Desrochers
Advocates, Barristers and Solicitors, Montreal

Stock Exchange Listing

Toronto Stock Exchange
Class A Shares, Series C and F Warrants

FEDERAL TRUST COMPANY

Directors

*David S. Ades, *B.Sc., A.M.C.T.*
President
Realty Capital Corp. Limited
Federal Trust Company

Roger I. Coe, *C.A.*
Vice-President and Treasurer
Realty Capital Corp. Limited
Federal Trust Company

Consiglio Di Nino,
Vice-President
Realty Capital Corp. Limited
Federal Trust Company

*Donald C. Early,
Greenshields Incorporated, Toronto

*Seymour Friedland, *Ph.D.*
Professor of Economics
York University, Toronto

Pierre Genest, *Q.C.*
Partner
Cassels, Brock, Toronto

*Alderman Joseph J. Piccininni
Alderman
City of Toronto

*Georges A. Pouliot, *Q.C.*
Partner
Pouliot, Mercure, Le Bel, Prud'Homme, Verdy & Desrochers, Montreal

**Audit Committee*

Realty Capital Corp Limited

Federal Trust Company

CONSOLIDATED BALANCE SHEET

Assets

	December 31 1976	1975
Cash and bank deposit receipts	**$ 5,171,000**	$ 7,099,000
Corporate notes and dealers' call loans	**1,526,000**	1,489,000
Investment income due and accrued	**2,307,000**	1,721,000
Securities (Note 3):		
Bonds	**5,401,000**	5,795,000
Stocks	**3,909,000**	2,147,000
	9,310,000	7,942,000
Loans:		
Mortgages	**115,784,000**	97,420,000
Consumer and other	**6,674,000**	3,745,000
	122,458,000	101,165,000
Real estate held for development or sale (Note 4)	**2,783,000**	2,598,000
Investment in and advances to joint ventures (Note 5)	**953,000**	1,372,000
Other (Note 6)	**3,911,000**	873,000
Premises, leasehold improvements and equipment (Note 7)	**1,366,000**	1,481,000
	$149,785,000	$125,740,000

Liabilities

	December 31 1976	1975
Guaranteed trust deposits (Note 8):		
Demand	**$ 32,337,000**	$ 29,893,000
Term	**8,442,000**	4,822,000
Guaranteed investment certificates and debentures	**91,858,000**	71,459,000
Interest due and accrued	**5,237,000**	3,948,000
	137,874,000	110,122,000
Accounts payable and other	**1,233,000**	1,382,000
Mortgages payable (Note 9)	**1,023,000**	1,109,000
Bank loans	**172,000**	3,270,000
Long term debt (Note 10)	**3,335,000**	4,125,000
	143,637,000	120,008,000
Deferred income taxes	**1,068,000**	1,031,000
Shareholders' Equity		
Capital stock (Note 11)	**2,524,000**	2,524,000
Contributed surplus	**8,000**	8,000
Retained earnings	**2,548,000**	2,169,000
	5,080,000	4,701,000
	$149,785,000	$125,740,000

Approved by the Board:

David S. Ades, *Director*
Roger I. Coe, *Director*

CONSOLIDATED STATEMENT OF INCOME

	Year ended December 31 1976	1975
Trust Division:		
Investment income	**$12,810,000**	$10,366,000
Fee and commission income	**883,000**	722,000
	13,693,000	11,088,000
Expenses —		
Interest	**10,133,000**	7,767,000
Salaries, commissions and staff benefits	**1,818,000**	1,423,000
Premises	**644,000**	583,000
Other operating	**955,000**	861,000
	13,550,000	10,634,000
Income from Trust Division*	**143,000**	454,000
Land Development Division:		
Mortgage and other investment income	**458,000**	560,000
Profit on sale of real estate	**35,000**	20,000
Fee and commission income	**43,000**	57,000
	536,000	637,000
Expenses —		
Interest	**102,000**	374,000
Operating	**308,000**	447,000
	410,000	821,000
Income (loss) from Land Development Division*	**126,000**	(184,000)
Holding Company:		
Fees charged to other divisions	**508,000**	420,000
Other income	**155,000**	82,000
	663,000	502,000
Expenses —		
Interest	**313,000**	322,000
Operating	**267,000**	179,000
	580,000	501,000
Income from Holding Company*	**83,000**	1,000
Net income before taxes and extraordinary gain	**352,000**	271,000
Income taxes (Note 12):		
Current	**9,000**	(131,000)
Deferred	**(6,000)**	204,000
	3,000	73,000
Net income before extraordinary gain	**349,000**	198,000
Extraordinary gain on sale of premises less income taxes of $65,000 (1975 — $138,000)	**177,000**	739,000
Net income for the year	**$ 526,000**	$ 937,000
Earnings per Class A and Common share (Note 13):		
Net income before extraordinary gain	**$ 0.47**	$ 0.27
Net income for the year	**$ 0.71**	$ 1.27
Fully diluted before extraordinary gain	**$ 0.41**	

**Income of the holding company includes amounts charged to other divisions. Also, intercompany interest has been charged as appropriate.*

RealtyCapital Corp Limited

Federal Trust Company

AUDITORS' REPORT

To the Shareholders of Realty Capital Corp. Limited:

We have examined the consolidated balance sheet of Realty Capital Corp. Limited as at December 31, 1976 and the consolidated statements of income, retained earnings and changes in cash position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1976 and the results of its operations and the changes in its cash position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PRICE WATERHOUSE & CO.
Chartered Accountants

Toronto
March 18, 1977

Realty Capital Corp Limited

Federal Trust Company

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

	Year ended December 31 1976	1975
Balance at beginning of year	$ 2,169,000	$ 1,379,000
Net income for the year	526,000	937,000
	2,695,000	2,316,000
Dividends:		
Class A Shares (20 cents per share)	112,000	112,000
Common shares (20 cents per share)	35,000	35,000
	147,000	147,000
Balance at end of year	$ 2,548,000	$ 2,169,000

CONSOLIDATED STATEMENT OF CHANGES IN CASH POSITION

	Year ended December 31 1976	1975
SOURCES OF CASH:		
Operations*	$ 506,000	$ 533,000
Proceeds on sale of premises, net of income taxes	420,000	1,504,000
Increase in guaranteed trust borrowings	26,463,000	22,889,000
	27,389,000	24,926,000
APPLICATIONS OF CASH:		
Increase in securities and short term investments	1,405,000	1,633,000
Increase in loans	21,293,000	20,597,000
Additions to real estate held for development or sale	247,000	212,000
Real estate acquired by foreclosure	1,293,000	—
Additions to premises, leasehold improvements and equipment	239,000	285,000
Decrease in bank loans	3,098,000	(859,000)
Payments on long term debt	790,000	82,000
Dividends	147,000	147,000
Net other applications	805,000	(251,000)
	29,317,000	21,846,000
Increase (decrease) in cash for the year	(1,928,000)	3,080,000
Cash and bank deposit receipts at beginning of year	7,099,000	4,019,000
Cash and bank deposit receipts at end of year	$ 5,171,000	$ 7,099,000

**Represents net income before extraordinary gain for the year after adding back depreciation, amortization of financing expenses, deferred income taxes (1976 — $157,000; 1975 — $335,000).*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31,1976

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of consolidation —

The consolidated financial statements include the accounts of Realty Capital Corp. Limited and all of its subsidiary companies as listed below:

Company	Ownership 1976	1975
Federal Trust Company	99%	99%
Warchester Investments Limited (Note 2)	99%	100%
Sutton-Davis Estates North Inc.	99%	100%

Acquisitions are accounted for using the purchase method of accounting. The minority interests, which are not material, have been included with accounts payable on the balance sheet and operating expenses in the statement of income.

(b) Securities —

Stocks are carried at original cost and bonds at amortized cost. Where concurrent purchase and sale contracts of equal value are made for bonds of a similar investment quality, no gain or loss is recognized on the date of sale. The difference between the book value and the market value of the bonds sold is amortized over the lesser of the term to maturity of the bonds sold and purchased.

(c) Mortgages —

Mortgages are stated at their outstanding amount less unamortized discount and placement fees. Any amounts paid to maintain the Company's interest in the underlying security are included in the mortgage principal. Discount and placement fees are amortized on a straight-line basis over the terms of the mortgages. Provision for possible losses is made as required.

(d) Consumer and other loans —

Provision for losses on loans is made as required. Interest income on consumer loans is amortized over the terms of the loans using the sum of the digits method. On all other loans interest is recorded on an accrual basis.

(e) Real estate held for development or sale —

Real estate is valued at the lower of cost and estimated net realizable value. Cost includes all direct carrying charges such as mortgage interest, property taxes, professional fees and other related costs. Also included is interest on general borrowing considered applicable. Where mortgages are taken back on the sale of real estate, these mortgages are discounted to yield current market rates and the discount amortized over the terms of the mortgages.

(f) Joint ventures —

These investments are recorded using the equity accounting basis.

(g) Deferred expenses —

Certain expenses, included in other assets, are deferred to provide proper matching of revenue and expenses. The significant items are:

(i) Financing costs, including commissions, are written off over the terms of the related debt.

(ii) Certain computer systems costs are written off over a period of 5 years from the commencement date of using the systems.

(h) Real estate acquired by foreclosure —

Real estate acquired by foreclosure is valued at the lower of cost and estimated market value. Cost includes the mortgage receivable balance, recorded accrued interest thereon, and amounts paid to maintain the Company's position therein as of the date title is acquired plus any subsequent capital improvements to the property. Any revenues and expenses from operating such properties are recognized in earnings.

(i) Premises, leasehold improvements and equipment —

Premises, leasehold improvements and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is provided to write off assets over their estimated useful lives as follows:

Buildings	— 2½% straight-line
Equipment	— 20% reducing balance
Leasehold improvements	— over the remaining terms of the lease plus first option period

(j) Income taxes —

Full provision for income taxes is made in the financial statements using the tax allocation method, whereby income taxes related to timing differences are included in deferred income taxes. Timing differences arise as a result of including certain items of income and expense in one reporting period for financial accounting purposes and another for income tax purposes.

2. CORPORATE REORGANIZATION

During 1976, the corporate structure of the Company's subsidiaries was reorganized as follows:

(a) Under letters patent dated March 22, 1976, Warchester Investments Limited was formed effective January 1, 1976 by the amalgamation of the Company's wholly-owned subsidiaries, Warchester Investments Limited, Commodore Investments Limited, Edenhurst Developments Limited and Realty Capital Investments (Central) Limited.

(b) The amalgamated company was then sold to Federal Trust Company, at estimated fair market value.

This reorganization has no material effect on the consolidated financial statements.

3. SECURITIES

Cost and market values, at December 31 are:

	1976		1975	
	Cost	Market	Cost	Market
Bonds				
Government of Canada	$1,096,000	$1,013,000	$1,486,000	$1,338,000
Provinces of Canada	2,937,000	2,585,000	2,935,000	2,277,000
Municipalities	35,000	30,000	35,000	28,000
Corporation	1,333,000	1,128,000	1,339,000	1,068,000
	5,401,000	4,756,000	5,795,000	4,711,000
Stocks				
Preferred	3,462,000	3,347,000	1,861,000	1,566,000
Common	447,000	346,000	286,000	177,000
	3,909,000	3,693,000	2,147,000	1,743,000
	$9,310,000	$8,449,000	$7,942,000	$6,454,000

During the year, corporate bonds with a principal value of $965,000 were sold and the proceeds reinvested in corporate bonds of an equivalent principal value and of a similar investment quality. The difference on the date of sale between the book value and market value of the bonds sold amounted to $184,000, of which $16,000 has been amortized against income in 1976.

4. REAL ESTATE HELD FOR DEVELOPMENT OR SALE

Real estate includes interest in several parcels of land. During the year carrying costs in the amount of $247,000 ($212,000 in 1975) were capitalized.

5. INVESTMENT IN AND ADVANCES TO JOINT VENTURES

At December 31, 1976, the investment in and advances to joint ventures is represented by the following:

10% undivided interest in 415 Yonge Street —		
Land		$237,000
Building	$779,000	
Less: Accumulated depreciation	50,000	729,000
9¼% mortgage repayable over 25 years		(636,000)
Equity position in joint venture		
At December 31, 1975	(14,000)	
Share of 1976 profits	26,000	12,000
		342,000
Other investments in and advances to corporate joint ventures —		
Real estate		
Rental properties	110,000	
Held for development	139,000	
	249,000	
Mortgages receivable	232,000	
Advances	201,000	
Other net liabilities	(6,000)	
Mortgages payable	(65,000)	611,000
		$953,000

The Company is recording depreciation at 2½% on the straight-line basis on its interest in the building.

6. OTHER ASSETS

(a) Included in other assets, at December 31, are the following items:

	1976	1975
Joint ventures under realization	$1,931,000	$ —
Investment in Federal Trust Company Managed Funds	100,000	200,000
Deferred expenses	449,000	293,000
Income tax recoverable	10,000	276,000
Real estate acquired by foreclosure	1,293,000	—
Other	128,000	104,000
	$3,911,000	$873,000

(b) The amount of $1,931,000 shown above as "joint ventures under realization" represents the following items:

Investment in and advances to two 50% owned corporate joint ventures	$ 386,000
Mortgage loans secured by property owned by one of the corporate joint ventures —	
First mortgages, N.H.A. insured	$1,123,000
Second mortgage	422,000
	$1,931,000

The Company is negotiating the termination of these joint ventures. Although all conditions have not yet been satisfied, tentative agreement has been reached for the sale to the other party of the Company's investment in and advances to the corporate joint ventures at carrying value. If the sale is not concluded, the two partners have agreed to voluntarily liquidate or wind up the corporate joint ventures. The ultimate proceeds and additional expenses to be incurred cannot be determined at this time. The related mortgages are to be repaid as part of the above tentative sale agreement.

7. PREMISES, LEASEHOLD IMPROVEMENTS AND EQUIPMENT

Book values, at December 31, are:

	1976			1975
	Cost	Accumulated depreciation & amortization	Net	Net
Land	$ 243,000	$ —	$ 243,000	$ 263,000
Buildings	521,000	95,000	426,000	542,000
Leasehold improvements	752,000	214,000	538,000	492,000
Equipment	445,000	286,000	159,000	184,000
	$1,961,000	$595,000	$1,366,000	$1,481,000

Depreciation and amortization charged against operations amounted to $111,000 in 1976 and $119,000 in 1975. Mortgages payable totalling $227,000 are secured against land and buildings.

8. GUARANTEED TRUST DEPOSITS

This represents the borrowings of Federal Trust Company. The consolidated balance sheet includes assets which, in compliance with the requirements of the Loan and Trust

Corporations Act, are earmarked and set aside to guarantee repayments of the trust deposits as follows:

	1976	1975
Cash, bank deposit receipts, corporate notes and dealers' call loans	$ 6,415,000	$ 6,706,000
Securities	7,630,000	5,051,000
Loans	120,484,000	97,268,000
Other	7,745,000	1,694,000
	$142,274,000	$110,719,000

9. MORTGAGES PAYABLE

The mortgages payable are secured by specific charges on real estate held for development or sale and the Company's branch premises.

They bear interest at rates between 8% and 13% and call for principal repayments as follows:

1977	$ 162,000
1978	34,000
1979	34,000
1980 and subsequent	793,000
	$1,023,000

10. LONG TERM DEBT

Details of long term debt at December 31 are as follows:

	1976	1975
Realty Capital Corp. Limited — Unsecured debt:		
9¼% sinking fund debentures, Series A, due July 3, 1993	$3,335,00	$3,500,000
Warchester Investments Limited — Secured certificates:		
8% Series 1	—	249,000
9% Series 2	—	376,000
	$3,335,000	$4,125,000

Amortization of financing costs amounted to $9,000 in 1976 and $12,000 in 1975.

The Trust Indenture securing the sinking fund debentures Series A contains, among other things, restrictions as to the issuing of additional debentures and of other secured debt and on paying dividends. The Company has covenanted to pay by way of a mandatory sinking fund, sums sufficient to retire $165,000 principal amount of debt on or before July 3 in each of the years 1977 to 1993 inclusive.

11. CAPITAL STOCK

(a) Details of authorized and issued capital at December 31:

Authorized —

2,000,000 cumulative (20¢) non-voting participating Class A Shares without par value

360,000 common shares without par value

	1976	1975
Issued —		
562,514 Class A Shares	$2,190,000	$2,190,000
174,400 Common Shares	334,000	334,000
	$2,524,000	$2,524,000

(b) At December 31, 1976 share warrants were outstanding entitling the holders to acquire one Class A share for each warrant held as follows:

	Exerciseable to	Exercise price	Class A Shares reserved for exercise
Series C	February 15, 1979	$5.00	155,000
Series F	(July 3, 1978 (July 3, 1983	6.25) 7.75)	175,000
			330,000

12. INCOME TAXES

The Company's income tax provisions are lower than the prevailing corporate tax rate because the statement of income includes certain non-taxable earnings.

13. EARNINGS PER SHARE

The earnings per share figures are calculated using the weighted monthly average number of shares outstanding during the respective years. Fully diluted earnings per share reflect the result as if all share warrants with dilutive effects outstanding at the end of the period had been exercised at the beginning of the period. For the purpose of these calculations earnings of $93,000 have been imputed at an after-tax rate of 5%.

14. OTHER INFORMATION

(a) Mortgages —

Outstanding commitments for future advances amounted to approximately $11,700.000 at December 31, 1976.

(b) Leases —

Under lease commitments expiring over the next ten years, the Company is committed to annual rental payments of $366,000.

(c) Federal Trust Company Mortgage and Bond Fund —

If redemptions from this managed fund exceed cash available to meet redemptions, Federal Trust Company has undertaken to find a purchaser for such number of mortgages as will realize the required cash. As at December 31, 1976 the Fund held mortgages valued at $975,000.

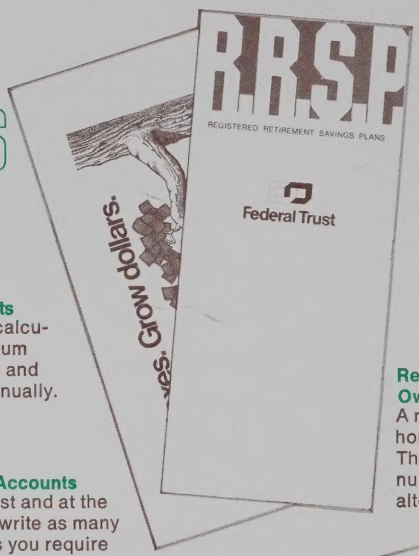
(d) Directors' and senior officers' remuneration —

The aggregate remuneration paid or payable by the Company and its subsidiaries to directors and senior officers (as defined by The Business Corporation Act, Ontario) amounted to $316,000 in 1976 and $279,000 in 1975.

(e) Comparative figures —

For comparative purposes certain 1975 accounts have been reclassified to conform with classifications adopted in 1976.

SERVICES & FUNCTIONS



Registered Retirement Savings Plans
A means of saving for retirement and deferring taxes at the same time. The company offers a number of investment opportunities.

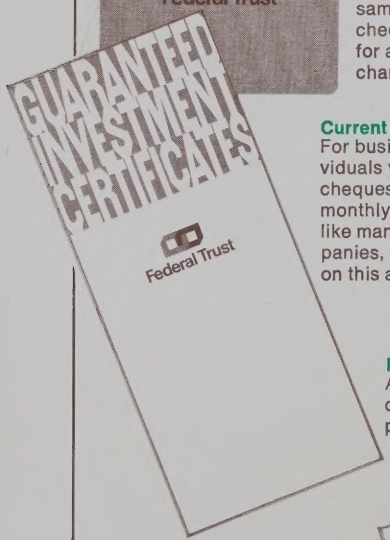
Real Estate Sales
We will act as realtor in buying and selling residential, commercial and industrial properties.

Special Savings Accounts
Maintain a minimum balance of $2,000 and receive a higher rate of interest.

Savings Accounts
Your interest is calculated on a minimum monthly balance and payable semi-annually.

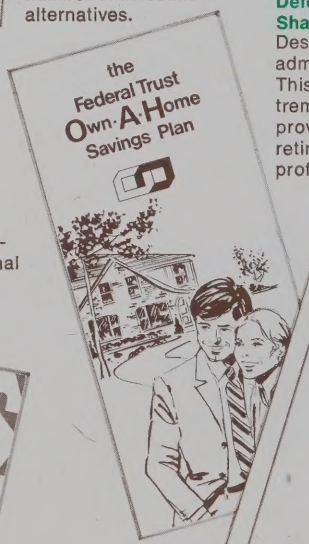
Registered Home Ownership Savings Plans
A means of saving for a home and reducing taxes. The company offers a number of investment alternatives.

Chequing Accounts
Earn interest and at the same time write as many cheques as you require for a small service charge.



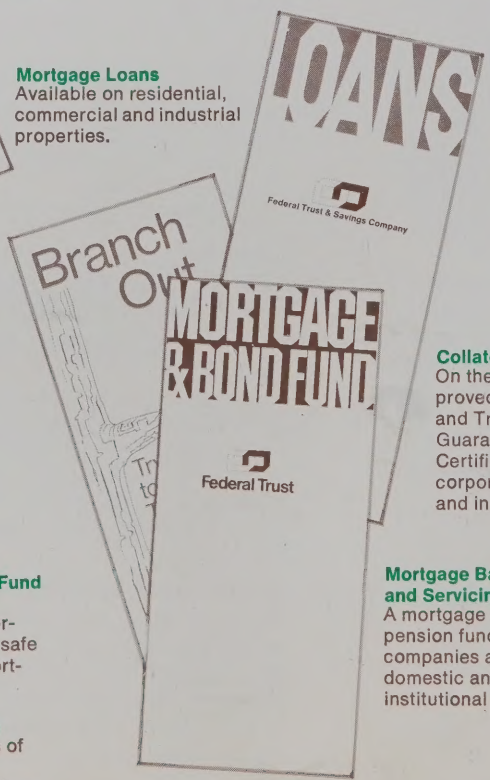
Current Accounts
For businesses or individuals who write many cheques and require a monthly statement. Unlike many other companies, we pay interest on this account.

Consumer and Personal Loans
Life insured loans available to meet the personal requirements of our customers.



Deferred Profit Sharing Plans
Design, registration and administration of plans. This has become an extremely popular means of providing employees with retirement income out of profits of the company.

Mortgage Loans
Available on residential, commercial and industrial properties.



Guaranteed Investment Certificates
Certificates earn the highest rate of interest. Interest may be paid monthly for certificates in excess of $10,000. Otherwise interest is payable bi-annually or may be accumulated to maturity. Certificates are available in amounts of $500 or more.

Collateral Loans
On the security of approved stocks and bonds and Trust Company Guaranteed Investment Certificates. Available to corporations, brokers and individuals.

Mortgage and Bond Fund
Offers the investor liquidity and an opportunity to share in the safe and lucrative first mortgage market.

Short Term Deposits
Available in amounts of $5,000 and over for periods of 30 to 364 days.

Mortgage Banking and Servicing
A mortgage service for pension funds, insurance companies and other domestic and foreign institutional investors.

Other services:

- Foreign Remittances
- Real Estate Management and Appraisals
- Travellers Cheques
- Personal Investment Management
- Money Orders and Drafts
- Safety Deposit Boxes

Savings Branches

415 Yonge St., Toronto 864-9253
Donald B. Irvine
141 Yonge St., Toronto 864-9023
David E. Tarrington
654 Danforth Ave., Toronto 461-0254
Sarantis Castrinos
948 St. Clair Ave. W., Toronto 654-4255
Giuseppe Ianni
1850 Eglinton Ave. W., Toronto 789-4341
Frank B. DeProfio
1224 St. Clair Ave. W., Toronto 652-3555
Lou Pernatozzi
2070 Danforth Ave., Toronto 422-1610
Perry Giacco
343 College St., Toronto 961-8247
Giuseppe M. Totino
9 Queen St. E., Brampton 453-1460
Donald F. Casey
270 Albert St., Ottawa (613) 238-4886
Robert J. Acres
800 Niagara St. N., Welland (416) 735-0714
Gordon Stringer

Real Estate Sales Branches

1355 Kingston Rd. W., Pickering 361-1893
Marion D. Legge
87 Bayfield St., Barrie 362-0332
Leslie A. Wainwright
9 Queen St. E., Brampton 453-6320
Peter Schmidt
61 Lakeshore Rd. W., Oakville 845-7549
Edward W. Stone
800 Niagara St. N., Welland (416) 735-0719
Frances L. Conant

Mortgage Offices

415 Yonge St., Toronto 864-1720
William W. Ryan
270 Albert St., Ottawa (613) 238-4888
Brian Godding

Realty Capital Corp Limited

Federal Trust Company

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L'ASSOCIATION DES COMPAGNIES DE FIDUCIE DU CANADA
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